GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:5201
ANSWERED ON:11.05.2007
MONEY CIRCULATION IN THE COUNTRY
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Will the Minister of FINANCE be pleased to state:

(a) whether the Government had taken certain measures to reduce the money circulation in order to check the rising rate of inflation in 2006;

(b) if so, the quantum of money circulation estimated to have been reduced on account of the said measures;

(c) whether about 33 billion Dollars have came into the country through different channels from the foreign countries during 2006; and

(d) if so, the impact of such money circulation on inflation?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) The Reserve Bank of India (RBI) is the Central Bank of the country. Having regard to the inflationary expectations, the RBI had in 2006-07 announced hike in key policy rates and also used Open Market Operations (OMO) and Market Stabilisation Scheme (MSS) as measures to modulate money supply. The changes in the policy rates during the year are as follows:

Movement in key policy rates during 2006-07(Per cent)

Effective since	Reverse Repo rate	Basis point change	Repo rate	Basis point change	Cash Reserve Ratio (CRR)	Basis point change
June 9, 2006	5.75		6.75		5.00	
July 25, 2006	6.00	+25	7.00	+25	5.00	
October 31, 2006	6.00		7.25	+25	5.00	
December 23, 2006	6.00		7.25		5.25	+25
January 6, 2007	6.00		7.25		5.50	+25
January 31, 2007	6.00		7.50	+25	5.50	
February 17, 2007	6.00		7.50		5.75	+25

March 6.00 7.50 6.00 +25
3, 2007

March 6.00 7.75 +25 6.00
30, 2007

(b) The RBI has indicated first round liquidity impact due to CRR change in 2006-07 as Rs. 27,500 crore.

(c) & (d) As per information made available by the RBI, the capital inflows (BOP basis) during April-December, 2006 was US$ 28 billion. To mitigate the impact of these inflows on money supply, the RBI undertook sterilisation of the flows through the use of MSS by absorbing Rs. 33,912 crore during 2006-07.